CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

VOL. 2012 | NO. 4

→ FARM REVENUES → FARM OPERATING COSTS → FREE TRADE

Monthly Highlights

Growth Elusive So Far

Unfortunately, first quarter economic growth in Canada in 2012 was flat. Small positive growth in gross domestic product in January and March was offset by small negative growth in February. Compared to the first three months, April's GDP growth was an improvement, but still sat at a paltry 0.3%.

Statistics Canada attributed April's growth largely to mining and oil and gas extraction. The growth was not evenly shared across the sector, however. Crude oil production improved markedly while natural gas production declined. Support activities for oil and natural gas extraction grew at a blistering 5.1% pace, mainly due to increased drilling and rigging. Mining sector numbers were up due to increased production at metal and potash mines.

Other good news can be found in building permit statistics for May, with 7.4% growth in the total value of building permits, the highest level since May 2007. Intentions to build medical facilities in British Columbia, government buildings in Alberta and Saskatchewan, and educational institutions in Alberta were all up significantly.

June's labour markets were flat. Nationwide, employment did not budge while unemployment fell slightly, as job-seekers dropped out of the labour force. Alberta and Manitoba's employment numbers contracted slightly in June. Natural resources employment fell by 1.3% in June but employment in the natural resources sector grew by 10.9% from June 2011 to June 2012, eleven times the growth across all industries.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,322	2,144	537	628	17,510	June
% change from previous month	0.2	-0.4	0.1	-0.4	0.0	
Unemployment rate (%)	6.6	4.6	4.9	5.2	7.2	June
change in percentage points from previous month	-0.8	0.1	0.4	0.1	-0.1	
Participation rate (%)	65.2	73.3	69.6	68.9	66.7	June
Average weekly earnings ($)	864.50	1,066.83	912.78	825.95	896.63	April
% change from previous month	0.3	1.2	-0.5	0.1	1.0	
Inflation						
Consumer Price Index (% change from May 2011)	1.3	0.4	1.5	1.1	1.2	May
Economic Activity						
Retail trade ($M)	5,145	5,654	1,408	1,388	38,852	April
% change from previous month	-0.2	-0.2	0.7	0.3	-0.5	
Wholesale trade ($M)	4,501	6,576	1,874	1,424	49,347	April
% change from previous month	1.6	4.6	6.7	6.1	1.5	
Manufacturing sales ($M)	3,150	6,268	1,118	1,282	49,110	April
% change from previous month	-1.2	-1.9	2.1	-1.3	-0.8	

Unless otherwise noted, data are seasonally adjusted.
Source: Statistics Canada

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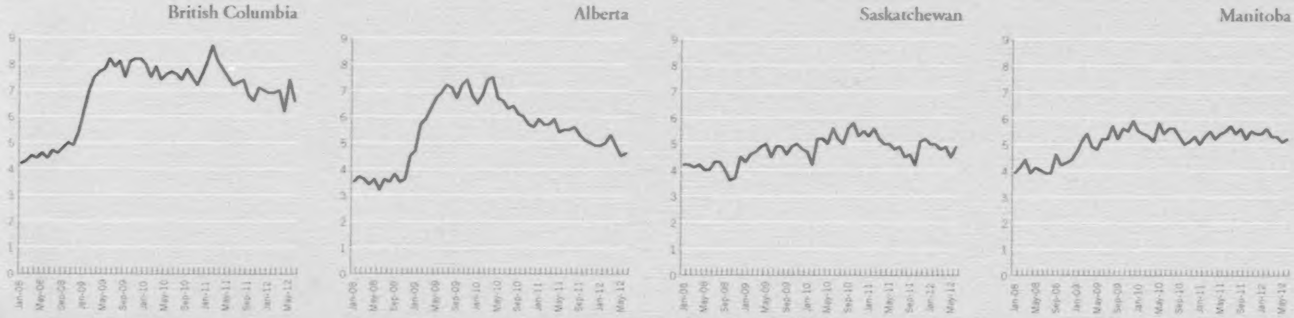
UNEMPLOYMENT RATE (%)

Source: Statistics Canada



Monthly Feature

Stronger Prices Fuelling Income Gains for Western Farmers

After a string of bad years in the early 2000s, western Canadian agricultural producers have enjoyed a welcome reversal of fortune. In 2011, farm cash receipts across the region reached a record $29.8 billion, capping off a five-year run over which receipts in the West grew by 41.4%.

In 2012, prices for most crops and livestock/animal products have pulled back somewhat, but remain well above their fifteen-year average. This has contributed to higher seeded acreage for grains and other principal field crops and declining oil prices should help ease some of the pressure on the cost side.

Crop farmers on the Prairies have boasted the strongest gains in recent years, with cash receipts nearly doubling from 2006 to 2011. To some degree, this increase is the result of several years of relatively good harvests; for most crops, average yields since 2006 have been well above trend levels. However, most of the income gains can be attributed to strong prices, especially for oilseeds and specialty crops, which have risen by an average of 122% and 127%, respectively, from March 2006 to March 2012.

These price signals have contributed to a shift in the focus of crop production in the West. Traditional grains like wheat, barley and oats still make up the bulk of crop land across the West, but seeded acreage for those grains has been flat or declining, while the amount of land sown with canola and other oilseeds, as well as pulses and other specialty crops, has increased. This trend is especially evident in Saskatchewan, where the area seeded with canola and lentils have both nearly doubled since 2006.

Although prairie farmers have enjoyed solid income growth in recent years, the same cannot be said for BC crop producers. Prices for fruits and vegetables have remained relatively flat in recent years and, as a result, farm cash receipts for crops in BC grew by a relatively modest 10.8% from 2006 to 2011. However, ideal weather conditions to start the year have some producers optimistic about 2012. Bumper crops are expected in BC's cherry orchards this year.

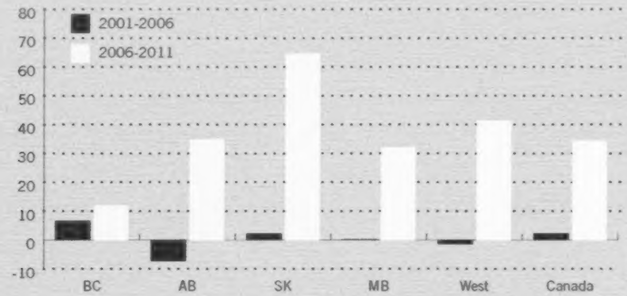
The livestock and animal products sector has also failed to realize the same income gains as crop production. Cash receipts in that sector increased by an average of just 7.5% across the region from 2006 to 2011. However, the coming year is looking positive. Prices for cattle have been increasing steadily over the past two years and hog prices, which have been weak for several years, are showing signs of recovery.

Nevertheless, challenges remain for agricultural producers in western Canada. While global demand for food is growing, helping to drive up producer prices, the strong Canadian dollar is offsetting some of those gains in international markets. At the same time, high feed prices, fueled in part by demand for corn as a feedstock for ethanol production, are raising production costs for livestock and meat producers in the region.

119%

Increase in crop farm cash receipts in Saskatchewan from 2006 to 2011.

GROWTH IN FARM CASH RECEIPTS (%)



Source: Canada West Foundation using Statistics Canada data

DID YOU KNOW?

In Saskatchewan, the area seeded with canola and lentils have both nearly doubled since 2006. The province now accounts for 52% of Canada's total acreage sown with canola and 97% of lentil farming in the country.

Led by Alberta, the West is home to 84% of all beef-producing cattle in Canada. However, the size of the herd is shrinking; the number of animals has fallen by 16.3% since 2006.

More than 93% of all marketed sweet cherries grown in Canada come from BC. That province is also Canada's largest commercial producer of raspberries, pears and blueberries.

BEHIND THE NUMBERS

Rising operating costs are eating into the recent income gains made by western Canadian farmers.

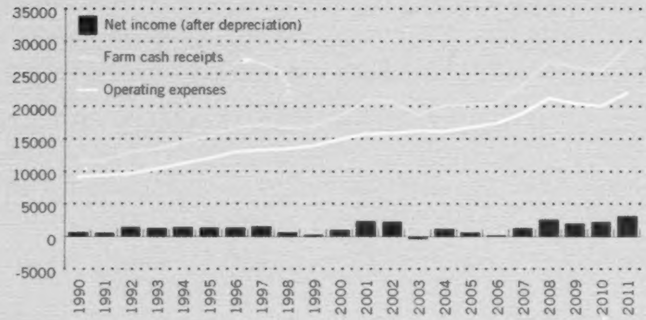
The fact that farm cash receipts in the West have risen by 41.4% since 2006 does not mean that farmers' net incomes have risen by that amount. Net incomes did reach record levels in 2011, but the gains were tempered by higher operating costs, which rose by 27.2% from 2006 to 2011, compared to a 10.0% increase from 2001 to 2006.

In particular, spending on fertilizer across the West has risen by 80.9% since 2006, largely because of increased use. Fertilizer prices have also been rising since late 2009, but remain below their 2008 peak levels. Insurance costs, especially crop and hail insurance, as well as commercial seed costs are also considerably higher, each up 70.2% since 2006. At the other end of the spectrum, low interest rates have reduced debt-servicing costs for western Canadian farmers by 6.6% over the past five years.

17

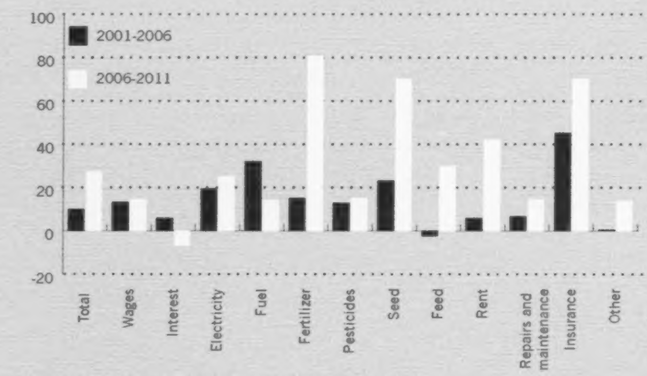
The factor by which 2011 net farm income (after depreciation) exceeded its five year low in 2006

CASH RECEIPTS AND OPERATING COSTS ON WESTERN CANADIAN FARMS ($ MILLIONS)



Source: Statistics Canada

GROWTH IN OPERATING COSTS ON WESTERN CANADIAN FARMS, BY TYPE (%)



Source: Canada West Foundation using Statistics Canada data

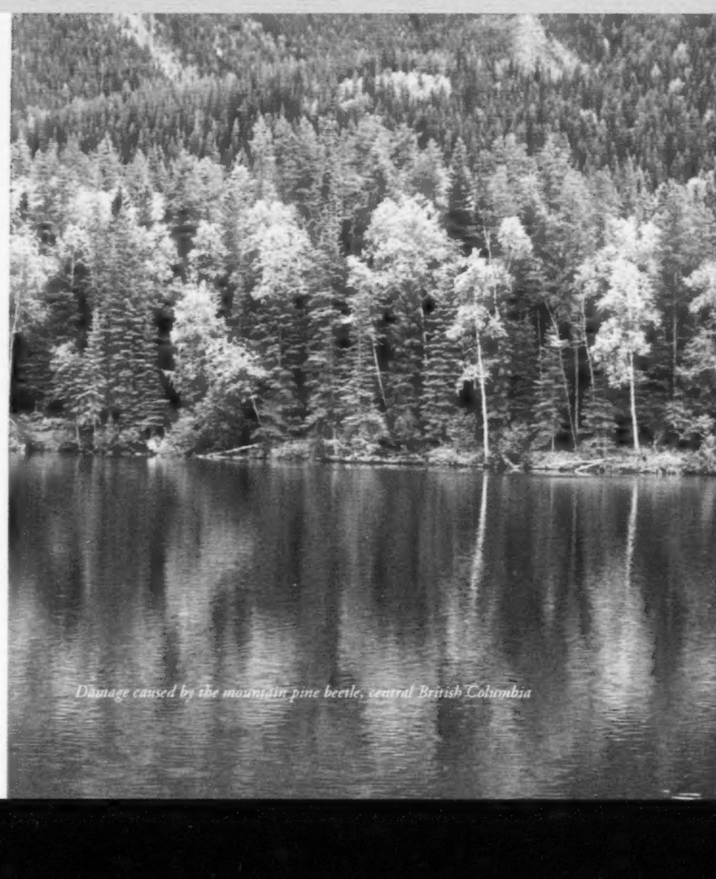
Energy Focus: British Columbia

Bioenergy Call for Power

British Columbia is expected to experience significant electricity generation demand growth in the coming years. In its draft 2012 Integrated Resource Plan, BC Hydro is forecasting energy demand to grow to 82,356 gigawatt hours in 2031, which works out to a 2% annual increase over the 2012-2031 period.

Hydroelectricity will continue to be a pillar of BC's electricity generation system. The province is also turning to another of its abundant natural resources to meet growing demand: forestry. BC recognized forestry's significant energy generation potential in its 2008 Bioenergy Strategy. Of BC's bioenergy potential, 87% is in forestry. Specifically, trees killed by the mountain pine beetle, logging debris and sawmill residues can be burned to generate electricity.

To begin harnessing this potential, BC Hydro issued a two-phase Bioenergy Call for Power that resulted in the Crown corporation agreeing to purchase electricity from wood waste biomass projects totaling 1,333 gigawatt hours per year of electricity generation.



Damage caused by the mountain pine beetle, central British Columbia

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OPINION

BY MICHAEL HOLDEN, SENIOR ECONOMIST

Expanded Exports & Cheaper Cheese: Benefits of Free Trade

After months of intense lobbying, Canada was invited to join the Trans-Pacific Partnership (TPP), a group presently consisting of nine countries sharing a view of the Pacific Ocean. These countries—the United States, Chile, Peru, Australia, New Zealand, Vietnam, Malaysia, Singapore and Brunei—represent a combined market of about 658 million people with purchasing-power-adjusted total economic activity valued at about US$17.7 trillion in 2011. The size of that potential market rises to US$23.8 trillion when Mexico and Japan are included (Mexico was invited to join alongside Canada and Japan is expected to join at some point).

Not all have welcomed this development for various reasons. In spite of criticism about the secretive nature of the negotiations and the potential implications around intellectual property protection, the invitation to join the TPP should be welcomed in Canada for at least two reasons. First of all, joining the TPP has important market access implications for Canadian businesses. And second, TPP talks may result in the long-overdue dismantling of Canada's supply management in dairy, poultry and egg production.

On the first point, critics have it right when they suggest that the TPP is not likely to offer Canada any significant new market access gains. Canada already has free trade agreements in place with the US, Chile, Peru and Mexico. Moreover, the remaining TPP countries accounted for less than 1% of Canada's total exports in 2011.

While trade with those other TPP members could well flourish under a new agreement, the impetus for joining the group is more defensive than offensive. As a trading nation, Canada needs to have access to foreign markets on terms at least as good as those enjoyed by its international competitors. For example, Canadian agricultural producers frequently compete with their US counterparts when exporting abroad. If the US had access to TPP markets on preferential terms, Canadian farmers and ranchers could find themselves effectively shut out of those trade opportunities.

In addition, the nature of trade has evolved and now includes participating in global supply chains—using parts, technology and expertise sourced from around the world to develop a final product. By participating in the TPP, Canadian businesses will secure access to supply chain opportunities in several fast-growing Asian markets.

The ongoing status of the system of quotas and tariffs known as supply management is more controversial. A number of years ago, Canada had requested a seat at TPP negotiations but was rebuffed because of its refusal to put supply management on the negotiating table. Naturally, Canada's success this time around has raised questions about whether supply management was the price of admission. Because the negotiations are secret, there is no way to know for sure.

But if it gets the federal government to revisit its position on supply management, that alone will make entry into the TPP worthwhile. Supply management has enjoyed all-party support in the House of Commons, but many Members of Parliament have expressed frustration at the price-setting system of supply quotas and tariff walls in private. As pointed out in a recent study by former MP Martha Hall Findlay, Canadian families pay close to $300 more for milk in a year than American families (assuming they purchase four litres of milk per week). Not only is this an extra burden on low income families, it also impedes growth in value-added food processing in Canada because dairy-based inputs are so expensive.

The TPP talks present Canada with domestic and international opportunities. The negotiations provide an opportunity to dismantle supply management, making some of life's staples more affordable for Canadian consumers. At the same time, we can ensure better access to foreign markets, enabling continued Canadian prosperity. These will not be easy opportunities to take advantage of, but they are nonetheless worthwhile ones.